

Muskegon Community College

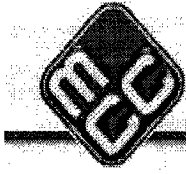
REPORT ON FINANCIAL STATEMENTS

Year ended June 30, 2004

Muskegon Community College

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Muskegon Community College

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Management's Discussion and Analysis

The discussion and analysis of Muskegon Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2004. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

In December 1998, the Governmental Accounting Standards Board (GASB) released Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", which modified the reporting of property tax revenue. In June 1999, GASB released statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and therefore, has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*.

The major changes from the fund basis financial statements presented by the College in the past and the 'one-line look at the entity as a whole' are as follows:

- New reporting standards – Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows
- Recording of depreciation expense and accumulated depreciation on the Statement of Net Assets
- Capitalizing all capital expenditures on the Statement of Net Assets instead of recording as an expense
- Elimination of internal service charges and related expenses such as copy charges and maintenance fees
- Establishing an operating and non-operating basis of reporting whereby revenues that are charges for services are recorded as operating revenues. Essentially all other types of revenue are non-operating or other revenue
- Netting tuition and fees for scholarship allowances that were also reported as federal and state grant revenue

Muskegon Community College

Management's Discussion and Analysis

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements in the above-referred format, and notes to financial statements along with supplemental information.

Financial Highlights

The College's financial position increased during the fiscal year ended June 30, 2004. The current assets increased \$9,025,196 from the prior year. This includes \$7,741,810 of unspent proceeds from a \$9,985,000 bond issue in October 2003. The bonds were issued for the purpose of constructing a Career Technical Center (CTC) and library addition on the College's property. The larger project, the CTC, will be completed by December 31, 2004, and the library addition in 2006.

In the fiscal year ended June 30, 2004, the College's revenues and other support exceeded expenses, creating an increase in net assets of \$150,321.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole. The two statements report the College's net assets and changes in them. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Revenues and expenses are separated into categories of operating revenues and non-operating.

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2004 and 2003:

Net Assets As of June 30				
(in thousands)				
	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$27,306	\$18,281	\$ 9,025	49.4%
Non-Current Assets:				
Capital Assets, Net of Depreciation	13,936	11,640	2,296	19.7%
Bond Discount and Issuance Costs	137	-	137	-
Other	4	2	2	100.0%
Total Assets	<u>\$41,383</u>	<u>\$29,923</u>	<u>\$11,460</u>	<u>38.3%</u>

Muskegon Community College

Management's Discussion and Analysis

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Liabilities	\$ 5,079	\$ 3,628	\$ 1,451	40.0%
Long-Term Liabilities				
Long-Term Debt Obligations	9,691	35	9,656	27,588.6%
Accrued Sick Leave	2,422	2,220	202	9.1%
Net Assets:				
Invested in Capital Assets, net of related debt	3,938	11,564	(7,626)	(65.9%)
Restricted – Expendable	318	294	24	8.2%
Capital Projects	10,067	2,516	7,551	300.1%
Unrestricted	9,868	9,666	202	2.1%
Total Net Assets	24,191	24,040	151	0.6%
Total Liabilities and Net Assets	\$41,383	\$29,923	\$11,460	38.3%

Although unrestricted net assets are not subject to externally imposed restrictions, virtually all of the College's unrestricted net assets are designated for purposes to fulfill its mission including designations for capital projects and inventory (auxiliary funds - \$2,442,345); fund balance reserve (general fund - \$3,038,069); scholarships and grants (restricted fund \$435,364); and future health care cost increases (designated fund - \$410,000).

Summary Operating Results for the Year

(in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Tuition and Fees	\$ 5,579	\$ 4,773	\$ 806	16.8%
Grants and Contracts	5,758	5,941	(183)	(3.1)%
Auxiliary Services	2,444	2,326	118	5.1%
Other	350	55	295	536.4%
Total Operating Revenues	14,131	13,095	1,036	7.9%
Total Operating Expenses	30,384	29,253	1,131	3.9%
Net Operating Loss	(16,253)	(16,158)	95	.6%
Non-operating Revenues				
State Appropriations	8,010	8,946	(936)	(10.5)%
Property Taxes	8,135	7,568	567	7.5%
Gifts	24	19	5	26.3%
Investment Income	234	405	(171)	(42.2)%
Net Non-operating Revenues	16,403	16,938	(535)	(3.2)%
Increase in Net Assets	\$ 150	\$ 780	\$ (630)	(80.8)%

Muskegon Community College

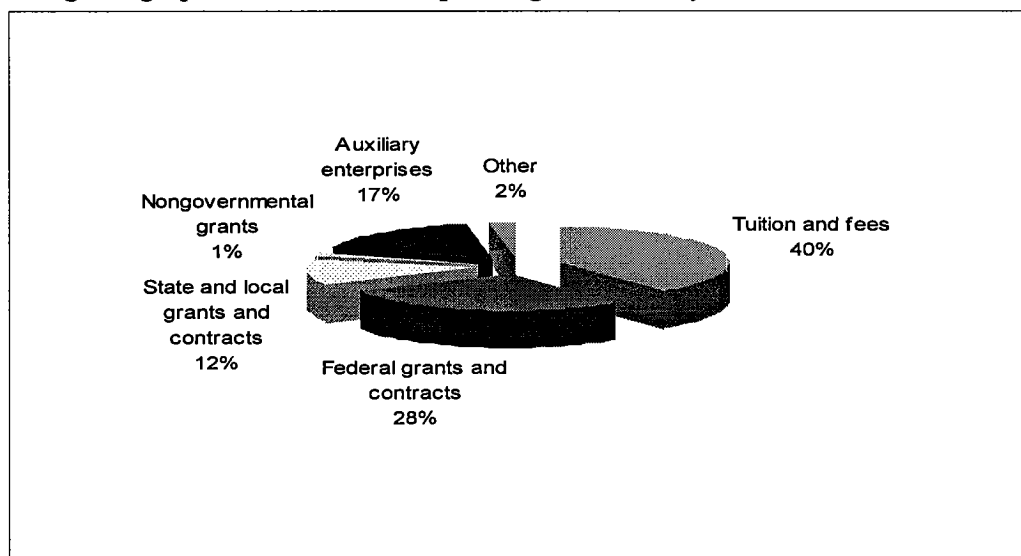
Management's Discussion and Analysis

Operating Revenue

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services. Operating revenue changes were the result of the following:

- Net student tuition and fee revenue increased \$805,555 from the prior year. The College instituted a \$4.00 per in-district credit hour increase effective with the fall 2003 semester along with a \$10.00 increase in the registration fee. Also, the College increased its charge for excess contact hours from 60% to 80% of the applicable credit hour rate. Total credit hours increased by approximately 3.2% over the prior year. The increased revenue was partially offset by a \$335,900 increase in student scholarship allowances.
- Grants and contracts revenue decreased \$183,907. An increase in Title IV federal funds was offset by reductions in state At Risk grant funding, state job training activities, and a reduction in the maximum annual amount available to recipients of the Michigan Merit Scholarship Award.
- Auxiliary services revenue increased by \$118,676 due to increased bookstore sales and an increase in the rental revenue received on the Stevenson Center.
- Miscellaneous revenue increased by \$295,768 due primarily to donations received for the library addition, and investment earnings on the bond proceeds.

The following is a graphic illustration of operating revenues by source:



Muskegon Community College

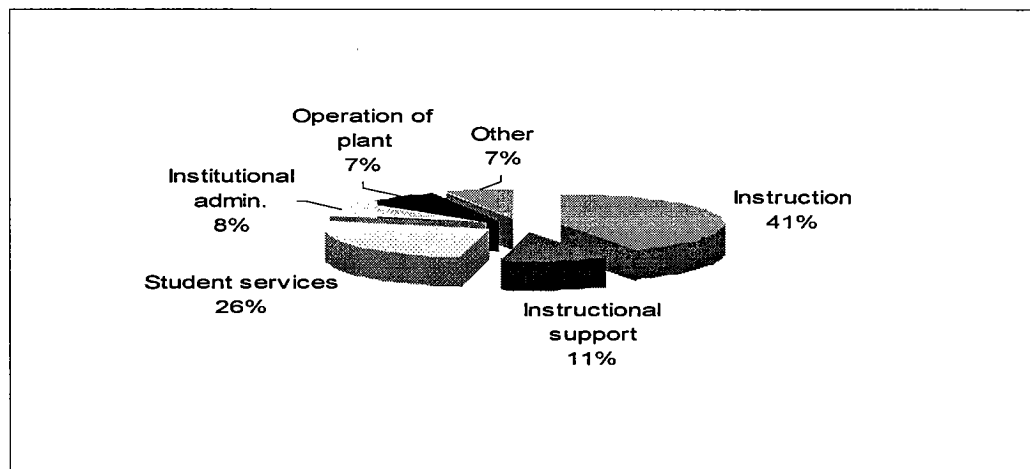
Management's Discussion and Analysis

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. For the June 30, 2004 fiscal year, the State of Michigan requested information technology be separately disclosed. Operating expenses for the fiscal year ended June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Instruction	\$12,824,806	\$12,325,949
Information Technology	1,076,827	-
Public service	284,812	234,321
Instructional support	3,222,449	3,227,139
Student services	7,967,499	8,771,038
Institutional administration	2,285,182	2,231,420
Operation and maintenance of plant	2,032,823	1,966,340
Depreciation and Amortization	463,441	443,092
Other	226,115	54,103
Total	<u>\$30,383,954</u>	<u>\$29,253,402</u>

The following is a graphic illustration of operating expenses by source:



Muskegon Community College

Management's Discussion and Analysis

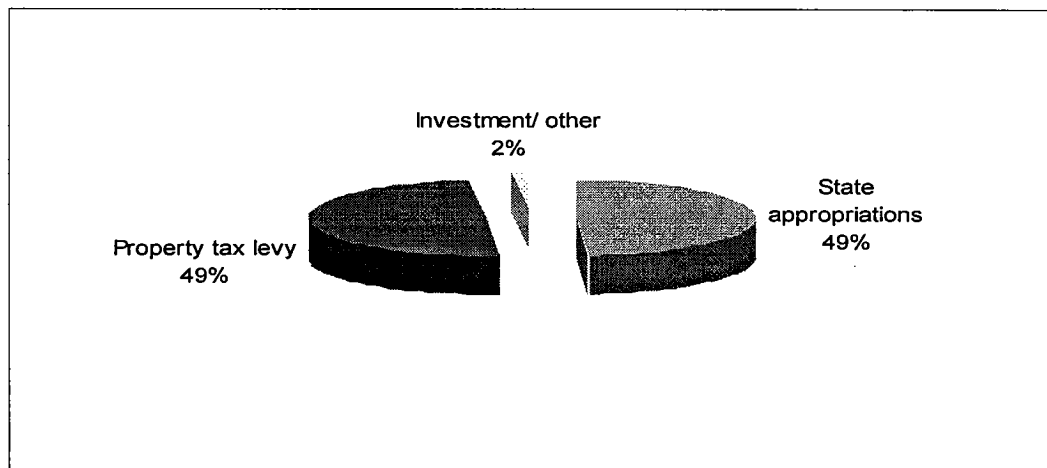
Non-operating Revenues

Non-operating revenues are all revenue sources that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Non operating revenue changes were the result of the following factors:

- State appropriations decreased 10.5 % or \$936,022, in accordance with the state funding reductions.
- Increase in taxable value for property within the taxing district resulting in increased property tax revenues of \$567,279 or a 7.5% increase.
- Investment income decreased by \$170,734 or 42.2%, due primarily to an unrealized loss in a mutual fund consisting entirely of U.S. Government obligations.

The following is a graphic illustration of non-operating revenues by source:



Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments, and transfers from related entities. The College had no “other” revenue during the year.

Muskegon Community College

Management's Discussion and Analysis

Statement of Cash Flows

The primary purpose of this statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also may help users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Overall the College's year end cash position increased by \$206,595.

Cash Flows for the Year Ended June 30

(in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash Provided (Used) by:				
Operating Activities	\$(14,222)	\$(15,616)	\$ 1,394	8.9%
Noncapital Financing Activities	16,411	16,600	(189)	(1.1)%
Capital and Related Financing Activities	7,074	(1,157)	8,231	711.4%
Investing Activities	(9,056)	1,903	(10,959)	(575.9)%
Net Increase (Decrease) in Cash	\$ 207	\$ 1,730	\$ (1,523)	(88.0)%

Capital Assets

At June 30, 2004, the College had some \$13.9 million invested in capital assets, net of accumulated depreciation of \$8.6 million. Depreciation charges totaled \$458,432 for the current fiscal year. Details of these assets at June 30 are shown in the following table.

Fixed Assets for the Year Ended June 30

(in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Land, Land Improvements and Infrastructure	\$ 1,385	\$ 1,209	\$ 176
Buildings and Improvements	16,675	15,805	870
Furniture, Fixtures, and Equipment	2,334	2,220	114
Construction in Progress	2,187	627	1,560
Total	\$22,581	\$19,861	\$ 2,720

Muskegon Community College

Management's Discussion and Analysis

Major capital additions completed this year, and the source of the resources that funded their acquisition included (in thousands):

• Land for future expansion, from designated reserves	\$ 175.6
• Replacement of vehicles, from auxiliary funds	51.4
• Equipment, used in instruction, from state and donated funds	113.2
• Building and improvements	869.7
• Career Technical Center (in progress), from bond proceeds	<u>2,186.8</u>
Total Major Additions	\$ 3,396.7

In the next year, the College has budgeted capital additions of approximately \$475,000, primarily for instructional equipment and minor facility renovations. In addition, the College will complete construction on the CTC, and will begin construction of a new library addition to the main campus.

Debt

The College's long term debt consists of \$77,134 in notes payable, related to equipment installment obligations, and \$9,985,000 in General Obligation – Limited Tax Bonds, issued in October 2003, for a total of \$10,062,134. This compares to approximately \$76,200 as of June 30, 2003. The College's bond debt rating is AAA.

The bonds were issued for the purpose of constructing the CTC and a planned library addition to the College's main campus. The CTC will be operated by the Muskegon Area Intermediate School District (MAISD), and the MAISD is obligated to make rental payments to the College which will approximate the projected debt service on the portion of bonds used to construct that facility. More detailed information about the College's long-term liabilities is presented in the footnotes to the financial statement.

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state funding for the College projects an increase in funding only if the College limits tuition increases for fiscal 2005. To be eligible for this incentive, the Board of Trustees has limited tuition increases to less than 2.3% for fiscal year 2005. This means \$250,300 of the reduction in appropriations for fiscal 2004 will probably be returned to the College in fiscal 2005.

Overall, the College's current financial and capital plans along with additional operating cost savings indicate that the College is well positioned to maintain its present level of services.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 8, 2004

Board of Trustees
Muskegon Community College
Muskegon, Michigan

We have audited the accompanying financial statements of Muskegon Community College (College), as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 2004, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 8, 2004, on our consideration of Muskegon Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Trustees
November 8, 2004
Page 2

The management's discussion and analysis on pages i through viii are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The combining and consolidating fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and consolidating fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Buckley DeLong, PLLC

Muskegon Community College
STATEMENT OF NET ASSETS
Year ended June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 9,284,140
Short-term investments	15,428,058
Property taxes receivable	163,569
State appropriation receivable	1,429,118
Accounts receivable	487,663
Federal and state grants receivable	110,363
Inventories	390,726
Prepaid expenses and other assets	<u>12,526</u>

TOTAL CURRENT ASSETS 27,306,163

STUDENT LOANS RECEIVABLE 4,265

PROPERTY AND EQUIPMENT 13,936,221

BOND ISSUANCE COSTS 61,223

BOND DISCOUNT 75,194

TOTAL ASSETS 41,383,066

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Checks drawn on future deposits	1,043,522
Current portion of debt obligations	370,541
Accounts payable	379,376
Accrued payroll and other compensation	3,064,713
Deposits	15,825
Unearned revenue	<u>205,267</u>

TOTAL CURRENT LIABILITIES 5,079,244

LONG-TERM DEBT OBLIGATIONS 9,691,593

ACCRUED SICK LEAVE 2,421,671

TOTAL LIABILITIES 17,192,508

NET ASSETS

Invested in capital assets, net of related debt	3,937,558
Restricted for	
Expendable	
Scholarships	119,279
Instructional department uses	179,872
Loans	18,742
Capital projects	10,066,846
Unrestricted	<u>9,868,261</u>

TOTAL NET ASSETS \$ 24,190,558

The accompanying notes are an integral part of this statement.

Muskegon Community College
**STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS**
Year ended June 30, 2004

REVENUES

Operating revenues

Tuition and fees (net of scholarship allowances of \$2,232,466)	\$ 5,578,970
Federal grants and contracts	3,955,505
State and local grants and contracts	1,661,981
Nongovernmental grants	140,037
Auxiliary enterprises (net of scholarship allowance of \$425,939)	2,444,436
Miscellaneous	350,524
Total operating revenue	<u>14,131,453</u>

EXPENSES

Operating expenses

Instruction	12,824,806
Information technology	1,076,827
Public services	284,812
Instructional support	3,222,449
Student services	7,967,499
Institutional administration	2,285,182
Operation and maintenance of plant	2,032,823
Unallocated depreciation and amortization	463,441
Other expenditures	226,115
Total operating expenses	<u>30,383,954</u>
Operating loss	(16,252,501)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,010,200
Property tax levy	8,134,964
Gifts	23,959
Investment income	233,699
Net nonoperating revenues	<u>16,402,822</u>
Increase in net assets	150,321

NET ASSETS

Net assets at July 1, 2003	24,040,237
Net assets at June 30, 2004	<u>\$ 24,190,558</u>

The accompanying notes are an integral part of this statement.

Muskegon Community College
STATEMENT OF CASH FLOWS
Year ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 5,578,970
Grants and contracts	5,778,572
Payments to suppliers	(7,793,007)
Payment to employees	(20,580,113)
Loans issued to students	(1,691)
Auxiliary enterprise charges	2,444,436
Other	350,524
Net cash used by operating activities	<u>(14,222,309)</u>

CASH FLOWS FORM NONCAPITAL FINANCING ACTIVITIES

Local property taxes	8,209,755
Gifts and contributions for other than capital purposes	23,959
State appropriations	8,177,075
Net cash provided by noncapital financing activities	<u>16,410,789</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Bond proceeds, net of issuance costs and discount	9,843,574
Note proceeds	47,880
Purchase of capital assets	(2,770,116)
Principal paid on capital debt	(46,877)
Net cash used by (provided for) capital and related financing activities	<u>7,074,461</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(9,290,045)
Interest on investments	233,699
Net cash provided by (used for) investing activities	<u>(9,056,346)</u>

NET INCREASE (DECREASE) IN CASH 206,595

CASH AND CASH EQUIVALENTS at July 1, 2003 9,077,545

CASH AND CASH EQUIVALENTS at June 30, 2004 \$ 9,284,140

Muskegon Community College
STATEMENT OF CASH FLOWS—CONTINUED
Year ended June 30, 2004

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating loss	\$ (16,252,501)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	463,441
(Gain)/loss on disposition of equipment	15,378
Other noncash activity	
(Increases) decreases in assets	
Federal and state grants receivable	20,516
Accounts receivables (net)	533
Inventories	153,437
Prepaid assets and other current assets	55,292
Loans to students	(1,691)
Increases (decreases) in liabilities	
Checks drawn on future deposits	1,043,522
Accounts payable	(7,567)
Accrued payroll and other compensation	250,034
Deposits	11,762
Unearned tuition and fees	25,535
	<hr/>
Net cash used in operating activities	\$ <u><u>(14,222,309)</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Community College (College) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the College's accounting policies are described below.

Effective July 1, 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This statement primarily establishes standards for external financial reporting for Michigan colleges. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.
- A change in the financial statements to focus on the changes in net assets.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

Reporting Entity – Muskegon Community College is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles outlined in *Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001*.

Muskegon Community College, established in 1926, is located in Muskegon, Michigan. The College provides educational services to residents of Muskegon County. A seven-member Board, which is elected by residents of Muskegon County, governs the College.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has no component units.

Significant accounting policies followed by Muskegon Community College are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis – The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents – Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments – Investments are recorded at fair value, based on quoted market prices.

Accounts Receivable – Accounts receivable are recorded net of allowance of uncollectible accounts of \$3,754.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method. The inventory consists of food and supplies for Food Service and books and supplies for the Bookstore.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Financial Instruments – Muskegon Community College’s policy is to not require collateral for financial instruments subject to off-balance sheet credit risk. Any losses incurred on financial instruments due to the non-performance of other parties to the instruments would approximate the carrying value as of the balance sheet date.

Property and Equipment – Property and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Capitalized property and equipment are assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation is provided for physical properties on a straight-line basis of the estimated useful life of the assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	40 years
Furniture and other equipment	5 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Accrued Sick Leave – Accrued sick leave represents the accumulated liability to be paid under the College’s current sick pay policy. Under the College’s policy, employees earn sick time based on time of service and/or contract with the College. Employment contracts generally provide for the payment of one-half of unused sick leave to a maximum per individual at retirement, or for clerical and custodial staff, at termination.

Unearned Revenues – Revenues received prior to year end that are related to the next fiscal period are recorded as unearned revenues. These consist of \$199,432 of unearned revenue on the summer semester which began on June 30, 2004 and ends on July 31, 2004.

Gifts and Pledges – Gifts are recorded when received and pledges are recorded when it is determined that the gift is probable of collection at its net present value.

Internal Service Activities – Both revenue and expenses related to internal service activities including office equipment, maintenance, and copying have been eliminated.

Property Taxes – The College’s property tax is levied and becomes a lien on December 1, based on the assessed value listed as of the prior December 31. Local governmental units within the College’s jurisdiction collect and remit taxes until March 1, at which time the uncollected real property taxes are turned over to the County of Muskegon as delinquent. Delinquent real property taxes are funded by County of Muskegon bond issues and remitted to the College. Delinquent personal property taxes are recorded as revenue when received.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE B – DEPOSITS AND INVESTMENTS

The College's deposits and investments are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ 3,076,496
Investments in mutual funds	<u>6,207,644</u>
Total	<u>\$ 9,284,140</u>

Governmental Accounting Standards Board Statement No. 3 classifies the above amounts in the following categories:

Bank deposits (checking accounts, savings accounts and short-term investments)	\$ 3,072,421
Investments in mutual funds	6,207,644
Petty cash and cash on hand	<u>4,075</u>
Total	<u>\$ 9,284,140</u>

Deposits – The above deposits at June 30, 2004 were reflected in the accounts of the bank (without recognition of checks written but not cleared, or of deposits in transit) at \$2,341,099. Of this amount, \$102,710 was covered by federal depository insurance and \$2,238,389 was uninsured and uncollateralized for the year ended June 30, 2004.

The College believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the College evaluates each institution it deposits College funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments – The College is authorized by Michigan Public Act 331, as amended through 1997, and by resolution of the Board of Trustees to invest surplus monies in U.S. Treasury bonds, bills and notes, mutual funds, certain commercial paper and investment pools that are composed of authorized investment vehicles.

The College's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: Category 1 includes investments that are insured or registered, or for which the securities are held by the College or its custodial agent in the College's name; Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the College's name; and Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent not in the College's name.

The College's investments in the mutual funds are not categorized as to risk because they are not evidenced by securities that the College owns specifically. The College's investments are in accordance with State statutes.

	<u>Category</u>			<u>Uncategorized</u>	<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of deposit	\$ 1,600,000	\$ -	\$ -	\$ -	\$ 1,600,000
Commercial paper	6,485,366	-	-	-	6,485,366
U.S. Government securities	7,342,692	-	-	-	7,342,692
Mutual funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,207,644</u>	<u>6,207,644</u>
	<u>\$15,428,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,207,644</u>	<u>\$21,635,702</u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE C – PROPERTY AND EQUIPMENT

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2004 as follows:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Land and improvements	\$ 1,209,385	\$ 175,549	\$ -	\$ 1,384,934
Building and improvements	15,805,400	869,689	-	16,675,089
Construction in progress	626,557	2,186,785	626,557	2,186,785
Equipment	<u>2,220,137</u>	<u>164,650</u>	<u>50,854</u>	<u>2,333,933</u>
Total	<u>\$ 19,861,479</u>	<u>\$ 3,396,673</u>	<u>\$ 677,411</u>	<u>\$22,580,741</u>
Less Accumulated Depreciation:				
	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Land and improvements	\$ 796,600	\$ 19,400	\$ -	\$ 816,000
Building and improvements	5,901,128	316,108	-	6,217,236
Equipment	<u>1,523,836</u>	<u>122,924</u>	<u>35,476</u>	<u>1,611,284</u>
Total Accumulated Depreciation	<u>8,221,564</u>	<u>458,432</u>	<u>(35,476)</u>	<u>8,644,520</u>
Capital Assets, net	<u>\$ 11,639,915</u>	<u>\$ 2,938,241</u>	<u>\$ 641,935</u>	<u>\$13,936,221</u>

NOTE D – RETIREMENT PLANS

Plan Description – The College participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers most employees of the College. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the System result from the effects of implementing the School Finance Reform Act. Under these procedures, each College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totaled 12.17 percent for the period October 1, 2001 through September 30, 2002 and 12.99 percent for the period of October 1, 2002 through September 30, 2003 and October 1, 2003 through September 30, 2004. For the year ended June 30, 2004, the College contributed a fixed rate of 12.99 percent for the months July through September and 12.99 percent for the remainder of the fiscal year. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 3.0 percent to 4.3 percent of gross wages. The College's contributions to the MPSERS' plan for the year ended June 30, 2004, 2003, and 2002 were approximately \$1,548,000, \$1,474,000 and \$1,333,400, respectively. Employee contributions to the MIP were approximately \$286,400.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE D – RETIREMENT PLANS—Continued

Defined Contribution Plan – Effective, July 1, 1999, the Muskegon Community College Board of Trustees approved an Optional Retirement Plan (ORP) to be administered by TIAA-CREF. The ORP is available for all full-time faculty and full-time salaried administrative staff. Upon eligibility to participate in the ORP, employees have 90 days in which to elect participation in either the ORP or the MPSERS plan.

The ORP is a non-voluntary defined-contribution plan in which the College contributes 14.0 percent and the employee contributes 4.0 percent of the participating employee's includible compensation. Participants are immediately 100 percent vested in all ORP contributions. Participating employees elect their own allocation of contributions among the available investment vehicles offered by TIAA-CREF. ORP retirement benefits are based on the accumulation of contributions and the related investment income for each participant. Distributions of retirement benefits are available under the ORP when participants attain age 55. The College's contributions to the ORP were approximately \$265,000 and employee contributions approximated \$ 76,000.

NOTE E – RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the College carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The College participates in the Michigan Community College Risk Management Authority (risk pool) for claims relating to general and auto liability, motor vehicle physical damage, and property. Member contributions, which provide for losses incurred, reinsurance premiums, and risk management fees are allocated according to the actual costs incurred for each member. A member stop-loss fund provides for losses exceeding \$15,000 per occurrence or \$45,000 in the aggregate, on a year-to-year basis from the fund. Reinsurance agreements provide for loss coverage in excess of the amounts to be retained by the members. The Authority provides for withdrawal from membership at the end of any anniversary year.

NOTE F—BOND ISSUANCE COSTS

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
2003 Bond Costs:				
Issuance	\$ -	\$ 63,471	\$ -	\$ 63,471
Discounts	<u>-</u>	<u>77,955</u>	<u>-</u>	<u>77,955</u>
Total Bond Issuance Costs	-	141,426	-	141,426
Less Accumulated Amortization over 20 years:				
Issuance	-	2,248	-	2,248
Discounts	<u>-</u>	<u>2,761</u>	<u>-</u>	<u>2,761</u>
	<u>-</u>	<u>5,009</u>	<u>-</u>	<u>5,009</u>
Total Bond Issuance Costs, net of amortization	\$ <u>-</u>	\$ <u>136,417</u>	\$ <u>-</u>	\$ <u>136,417</u>

Amortization

Amortization expense has been charged as unallocated depreciation and amortization.

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE G – LONG-TERM DEBT OBLIGATIONS

The College issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the College. Other long-term obligations include capital leases and notes payable.

Summary of Long-Term Obligations

The following is a summary of long-term obligations activity for the College for the year ended June 30, 2004:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Bonds	\$ -	\$ 9,985,000	\$ -	\$ 9,985,000	\$ 330,000
Other obligations	<u>76,131</u>	<u>47,880</u>	<u>46,877</u>	<u>77,134</u>	<u>40,541</u>
	<u>\$ 76,131</u>	<u>\$10,032,880</u>	<u>\$ 46,877</u>	<u>\$10,062,134</u>	<u>\$ 370,541</u>

Long-term obligations consist of the following:

2003 Community College Building Site Bonds payable in annual installments ranging from \$330,000 to \$780,000 due May 1, 2005 to 2023; plus interest from 2.5% to 4.4% payable annually	\$ 9,985,000
Equipment installment purchase obligations, payable in monthly installments aggregating approximately \$4,100, including interest at rates ranging from 7% to 14.74%; final payments due March 2006	32,713
8.67% Capital lease, payable in monthly installments of \$1,028, including interest; final payment due October 2008	<u>44,421</u>
	<u>\$10,062,134</u>

As of June 30, 2004, future equipment installment obligations are as follows:

<u>Year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 370,541	\$ 365,263	\$ 735,804
2006	355,623	353,765	709,388
2007	375,492	344,186	719,678
2008	386,439	334,114	720,553
2009	404,039	323,918	727,957
2010-2014	2,320,000	1,426,400	3,746,400
2015-2019	2,940,000	971,580	3,911,580
2020-2023	<u>2,910,000</u>	<u>320,700</u>	<u>3,230,700</u>
	<u>\$10,062,134</u>	<u>\$4,439,926</u>	<u>\$14,502,060</u>

Muskegon Community College
NOTES TO FINANCIAL STATEMENTS—Continued
June 30, 2004

NOTE H – COMMITMENTS AND CONTINGENCIES

Commitments

Building Construction – In October 2003, the College issued a \$9,985,000 bond issue to construct, furnish and equip a Career Technical Center which will be leased to the Muskegon Area Intermediate School District and a library building. The Career Technical Center is expected to be completed in December 2004 and the library will be started in 2005.

Fiber Optic Network – The College has agreed to participate in the Educational Interconnection and Consortium Agreement with the Muskegon Area Intermediate School District (MAISD) and other public schools in Muskegon County. The Consortium is a non-profit voluntary unincorporated association, which will establish and operate a high speed interconnection of fiber optic telecommunications systems to help provide interactive voice/video/data interconnections and services to multiple sites in the Muskegon County area for educational purposes. The MAISD Fiber Optic Network (Network) will be jointly owned by the Network parties, including Network assets. The initial term of the agreement is ten years with automatic three-year renewal terms thereafter, unless individual members elect in writing not to renew for each subsequent term. The total cost to the College will be approximately \$33,000.

Contingencies

The College participates in federal student financial aid grant and loan programs which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of grants or expenditures which may be disallowed by the granting agencies cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

NOTE I – SELF-INSURANCE

The College has a self-insured medical reimbursement plan for substantially all employees. In general, the College is liable for benefits up to \$60,000 per covered individual per year, with an approximate aggregate liability of \$1,276,128 per year. Benefit payments in excess of \$60,000 per covered individual or \$1,276,128 in aggregate are payable by an insurance company subject to a \$1,000,000 lifetime maximum per employee and aggregate liability. Benefits in excess of \$1,000,000 in aggregate or \$1,000,000 per employee, if any, would be the liability of the covered individual.

The College utilizes a third party administrator to administer benefits payable under this plan. Reimbursement payments to the third party administrator, which have been charged to expense, approximated \$2,715,000 for the year ended June 30, 2004.

NOTE J – MUSKEGON COMMUNITY COLLEGE FOUNDATION

The Muskegon Community College Foundation was established in 1971 for the purpose of:

- a. Securing gifts of loans of property, works of art, historical papers, etc.
- b. Fundraising by means of loans, gifts, grants and bequests for a broad variety of purposes, including instruction and research, establishment of endowments, scholarships, fellowships, professorships, academic chairs, and cultural events and for buildings, equipment, and other facilities of all kinds.
- c. To act in the capacity of a fiduciary or trustee in carrying out these purposes and objectives.

The College is the sole beneficiary of any donations to, or funds raised by, the Foundation. At June 30, 2004, the stated value of the net assets of the Foundation approximated \$1,132,500. These assets are not included in the financial statements of the College. Contributions to and payments on behalf of the College by the Foundation approximated \$6,700 in the fiscal year ending June 30, 2004.

The College provides personnel support, supplies and equipment to the Foundation. The management of the College should be contacted for copies of the Foundation's financial statements.

SUPPLEMENTAL INFORMATION

Muskegon Community College
CONSOLIDATING BALANCE SHEET
June 30, 2004

ASSETS	Consolidated total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	Plant Fund
CURRENT ASSETS								
Cash and cash equivalents	\$ 9,284,140	\$ -	\$ 410,000	\$ 1,979,231	\$ 368,349	\$ 14,477	\$ 14,058	\$ 6,498,025
Short-term investments	15,428,058	8,085,366	-	-	-	-	-	7,342,692
Property taxes receivable	163,569	163,569	-	-	-	-	-	-
State appropriation receivable	1,429,118	1,429,118	-	-	-	-	-	-
Accounts receivable	487,663	224,948	-	228,360	32,968	-	-	1,387
Federal and state grants receivable	110,363	-	-	-	110,363	-	-	-
Inventories	390,726	-	-	390,726	-	-	-	-
Prepaid expenses and other assets	12,526	12,526	-	-	-	-	-	-
TOTAL CURRENT ASSETS	27,306,163	9,915,527	410,000	2,598,317	511,680	14,477	14,058	13,842,104
STUDENT LOANS RECEIVABLE	4,265	-	-	-	-	4,265	-	-
PROPERTY AND EQUIPMENT								
Land and improvements	1,384,934	-	-	-	-	-	-	1,384,934
Buildings and improvements	16,675,089	-	-	-	-	-	-	16,675,089
Construction in progress	2,186,785	-	-	-	-	-	-	2,186,785
Equipment	2,333,933	-	-	-	-	-	-	2,333,933
Allowance for depreciation	(8,644,520)	-	-	-	-	-	-	(8,644,520)
TOTAL PROPERTY AND EQUIPMENT	13,936,221	-	-	-	-	-	-	13,936,221
BOND ISSUANCE COSTS, NET OF AMORTIZATION	61,223	-	-	-	-	-	-	61,223
BOND DISCOUNT, NET OF AMORTIZATION	75,194	-	-	-	-	-	-	75,194
TOTAL ASSETS	\$ 41,383,066	\$ 9,915,527	\$ 410,000	\$ 2,598,317	\$ 511,680	\$ 18,742	\$ 14,058	\$ 27,914,742

Muskegon Community College
CONSOLIDATING BALANCE SHEET—CONTINUED
June 30, 2004

	Consolidated total	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2003 Debt Service Fund	Plant Fund
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Checks drawn on future deposits	\$ 1,043,522	\$ 1,043,522	\$ -	\$ -	\$ -	-	-	\$ -
Current portion of debt obligations	370,541	-	-	-	-	-	-	370,541
Accounts payable	379,376	288,964	-	68,247	1,537	-	-	20,628
Accrued payrolls and other compensation	3,064,713	2,918,034	-	71,900	74,779	-	-	-
Deposits	15,825	-	-	15,825	-	-	-	-
Unearned revenue	205,267	205,267	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	5,079,244	4,455,787	-	155,972	76,316	-	-	391,169
LONG-TERM DEBT OBLIGATIONS	9,691,593	-	-	-	-	-	-	9,691,593
ACCRUED SICK LEAVE	2,421,671	2,421,671	-	-	-	-	-	-
TOTAL LIABILITIES	17,192,508	6,877,458	-	155,972	76,316	-	-	10,082,762
NET ASSETS								
Invested in capital assets, net								
of related debt	3,937,558	-	-	-	-	-	-	3,937,558
Restricted for								
Expendable								
Scholarships	119,279	-	-	-	119,279	-	-	-
Instructional department uses	179,872	-	-	-	179,872	-	-	-
Loans	18,742	-	-	-	-	18,742	-	-
Capital projects	10,066,846	-	-	-	-	-	14,058	10,052,788
Unrestricted	9,868,261	3,038,069	410,000	2,442,345	136,213	-	-	3,841,634
TOTAL NET ASSETS	24,190,558	3,038,069	410,000	2,442,345	435,364	18,742	14,058	17,831,980
TOTAL LIABILITIES AND NET ASSETS	\$ 41,383,066	\$ 9,915,527	\$ 410,000	\$ 2,598,317	\$ 511,680	\$ 18,742	\$ 14,058	\$ 27,914,742

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
For the year ended June 30, 2004

REVENUES	Consolidated total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2004 Debt Service Fund	Plant Fund
Operating revenues									
Tuition and fees (net of scholarship allowances of \$2,232,466)	\$ 5,578,970	\$ (2,232,466)	\$ 7,811,436	\$ -	\$ -	\$ -	-	\$ -	-
Federal grants and contracts	3,955,505	-	5,772	-	-	3,949,733	-	-	-
State and local grants and contracts	1,661,981	-	-	-	-	1,661,981	-	-	-
Nongovernmental grants	140,037	-	-	-	-	140,037	-	-	-
Auxiliary activities (net of scholarship allowance of \$415,939)	2,444,436	(415,939)	-	-	2,860,375	-	-	-	-
Current funds expenditures for equipment and capital improvements	-	(116,770)	-	-	-	-	-	-	116,770
Miscellaneous	350,524	-	41,091	-	-	-	470	169,374	139,589
Total operating revenue	14,131,453	(2,765,175)	7,858,299	-	2,860,375	5,751,751	470	169,374	256,359
EXPENSES									
Operating expenses									
Instruction	12,824,806	(56,674)	12,331,226	-	5,931	544,323	-	-	-
Information Technology	1,076,827	-	994,288	-	-	-	-	-	82,539
Public services	284,812	-	240,480	-	40,730	3,602	-	-	-
Instructional support	3,222,449	(8,676)	3,209,275	-	-	21,850	-	-	-
Student services	7,967,499	(2,648,405)	3,010,876	-	2,313,365	5,291,663	-	-	-
Institutional administration	2,285,182	(51,420)	2,292,046	-	44,556	-	-	-	-
Operation and maintenance of plant	2,032,823	-	1,784,374	-	218,717	29,732	-	-	-
Depreciation and amortization	463,441	-	-	-	-	-	-	-	463,441
Other expenditures	226,115	-	-	-	-	-	1,192	209,545	15,378
Total operating expenses	30,383,954	(2,765,175)	23,862,565	-	2,623,299	5,891,170	1,192	209,545	561,358
OPERATING INCOME (LOSS)	\$ (16,252,501)	\$ -	\$ (16,004,266)	\$ -	\$ 237,076	\$ (139,419)	\$ (722)	\$ (40,171)	\$ (304,999)

Muskegon Community College
CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS—CONTINUED
For the year ended June 30, 2004

	Combined total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Student Loan Fund	2004 Debt Service Fund	Plant Fund
NONOPERATING REVENUES (EXPENSES)									
State appropriations	\$ 8,010,200	\$ -	\$ 8,010,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	8,134,964	-	8,134,964	-	-	-	-	-	-
Gifts	23,959	-	-	-	-	-	-	-	23,959
Investment income	233,699	-	134,302	-	-	-	319	88	98,990
Net nonoperating revenues	16,402,822	-	16,279,466	-	-	-	319	88	122,949
Increase in net assets	150,321	-	275,200	-	237,076	(139,419)	(403)	(40,083)	(182,050)
Transfers in (out)	-	-	(404,546)	-	(41,499)	137,287	-	54,141	254,617
Net increase in net assets	150,321	-	(129,346)	-	195,577	(2,132)	(403)	14,058	72,567
Net assets—beginning of year	24,040,237	-	3,167,415	410,000	2,246,768	437,496	19,145	-	17,759,413
Net assets—end of year	\$ 24,190,558	\$ -	\$ 3,038,069	\$ 410,000	\$ 2,442,345	\$ 435,364	\$ 18,742	\$ 14,058	\$ 17,831,980

Notes:
Capital expenditures are eliminated from operating expenditures in the current funds.
Student aid / scholarships are eliminated from expenditures to prevent double accounting of revenues.
The revenue is already recorded in federal and state grant revenues.
Internal service charges, such as duplicating, are eliminated.